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Attention: Sharla Dillon, Dockets Manager

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October 21, 2004

VIA FedEx

DOCKET NO.

04-00371

PAID T.R.A.

Chk # 053824

Amount 25.00

Rcvd By JR

Date 10-22-04

Re: Appalachian Power Company Application for Financing
up to \$950,000,000 through December 31, 2005

Dear Chairman Miller:

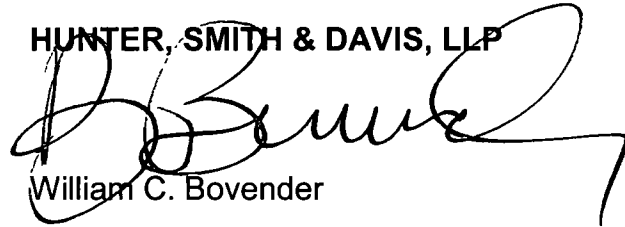
In connection with this matter, enclosed please find the original and 13 conformed copies of the above-referenced application, including Exhibits A, B, and C referenced in said Application and Verification. Also, please find our check for \$25 for filing same.

We have enclosed an additional copy which we would appreciate being returned to us when it has been time-stamped by your office. A self-addressed, stamped envelope is enclosed for this purpose.

Please contact the undersigned with any questions.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

A large, stylized handwritten signature in black ink, appearing to read 'W. Bovender', is written over the firm name.

William C. Bovender

Enclosures: Original and 13 copies of Application and Verification
Extra copy for time-stamping
SASE

cc: Mr. R. Daniel Carson, Jr. (w/o enc.)
William E. Johnson, Esq. (w/o enc.)
Mr. Isaac Webb (w/o enc.)
Mr. Barry Thomas (w/o enc.)

Before the

TENNESSEE REGULATORY AUTHORITY

In the Matter of the

:

:

APPLICATION

DOCKET NO. 04-_____

:

of

:

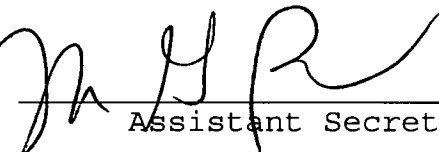
APPALACHIAN POWER COMPANY

VERIFICATION

I, Thomas G Berkemeyer, am authorized to represent Appalachian Power Company and to make this verification on its behalf. The statements in the Application of Appalachian Power Company filed in this docket today are true and of my own knowledge, except as to matters which are stated therein on information and belief, and as to those matters, I believe them to be true. Appalachian Power Company will comply with all applicable laws with respect to its issuance of securities to the public. I declare under penalty of perjury that the foregoing is true and correct.

APPALACHIAN POWER COMPANY

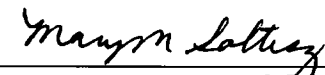
By:


Assistant Secretary

STATE OF OHIO :
COUNTY OF FRANKLIN :ss.

Subscribed and sworn before me this 18th day of October, 2004.

By:


Notary Public
My Commission expires 07-13-09

MARY M. SOLTESZ
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires 07-13-2009

Before the

TENNESSEE REGULATORY AUTHORITY

In the Matter of the:

APPLICATION :

of : DOCKET No. 04 _____

APPALACHIAN POWER COMPANY :

TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

1. Your petitioner, Appalachian Power Company ("Appalachian"), respectfully shows that:

(a) It is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, having its principal office in said Commonwealth in the City of Roanoke, and is properly qualified to transact business in the State of Tennessee.

(b) A true copy of its Restated Articles of Incorporation was filed with your Honorable Authority in Docket No. U-6533.

(c) Appalachian maintains its principal office in the State of Tennessee in the City of Kingsport, Sullivan County.

2. With the consent and approval of the Virginia State Corporation Commission and the further consent and approval of your Honorable Authority, Appalachian proposes to issue and sell, from time to time through December 31, 2005, secured or unsecured promissory notes ("Notes") in the aggregate principal amount equal to, on the date or dates of issuance, up to \$950,000,000. The Notes may be issued in the form of either First Mortgage Bonds, Senior Notes or other unsecured promissory notes.

The Notes will mature in not less than nine months and not more than 50 years.

The interest rate of the Notes may be fixed or variable and will be sold (i) by competitive bidding; (ii) through negotiation with underwriters or agents; (iii) by direct placement with a commercial bank or other institutional investor; or (iv) to Appalachian's parent, American Electric Power Company, Inc. ("AEP"), as further described in Section 3 *infra*. Any fixed rate Note will be sold by Appalachian at a yield to maturity which shall not exceed by more than 350 basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing. The initial interest rate on any variable rate Note will not exceed 10% per annum. Appalachian will agree to specific redemption provisions, if any, including redemption premiums, at the time of the pricing. If it is deemed advisable, the Notes may be provided some form of credit enhancement, including but not limited to a letter of credit, bond insurance, standby purchase agreement or surety bond.

In connection with the sale of unsecured Notes, Appalachian may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. In addition, Appalachian may permit the holder of the Notes to require Appalachian to prepay them after certain specified events, including an ownership change.

The First Mortgage Bonds will be issued under and secured by the Mortgage and Deed of Trust, dated as of December 1, 1940, made by Appalachian to Bankers Trust Company and R. Gregory Page, as Trustees, as previously supplemented and amended (on file in Docket

Nos. 2460, 2855, U-3044, U-3178, U-3321, U-3468, U-3973, U-4163, U-4524, U-5069, U-5255, U-5319, U-5394, U-5547, U-5646, U-5732, U-5800, U-5893, U-6134, U-6139, U-6266, U-6321, U-6360, U-6533, U-6761, U-6791, U-6885, U-6984, U-82-7153, U-83-7257, U-86-7481, U-87-7519, 89-11869, 91-05060, 91-08689, 92-13376, 93-01795, 93-06777, 94-00634, 95-03239, 96-01247, 97-07499, 98-00753, 99-00835, 00-00985, 01-01028, 02-01302 and 03-00503), and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for First Mortgage Bonds utilized by Appalachian is attached as Exhibit A. It is proposed that a similar form of Supplemental Indenture be used for one or more series of the First Mortgage Bonds (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The unsecured Notes will be issued under an Indenture dated as of January 1, 1998, (on file in Docket No. 98-00753), as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures or Company Orders. A copy of the most recent Company Order utilized by Appalachian is attached hereto as Exhibit B. It is proposed that a similar form of Company Order or a Supplemental Indenture be used for one or more series of the unsecured Notes (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

3. In addition, Appalachian proposes to issue one or more unsecured Notes to AEP up to an aggregate amount of \$200,000,000 out of the \$950,000,000 requested herein. The interest rates and maturity dates of any unsecured Notes sold to AEP would be designed to parallel the cost of the capital of AEP in accordance with the Public Utility Holding Company Act of 1935, as amended. In addition, the interest rate and maturity parameters generally governing the unsecured Notes set forth herein would apply to the unsecured Notes sold to AEP.

Appalachian proposes that it will sell unsecured Notes to AEP only if it has determined that the effective cost of any unsecured Note sold to AEP is lower than or equal to the effective costs of an unsecured Note of similar terms and tenor sold to non-affiliated entities.

4. Appalachian may enter into, from time to time through December 31, 2005, one or more interest rate hedging arrangements, including, but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements ("Treasury Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Appalachian will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Treasury Hedge Agreements cannot exceed an amount equal to, on the date or dates of entering such agreements, up to \$950,000,000.

Appalachian proposes, with the consent and approval of this Commission, to extend the authority granted in Docket No. 03-00503 (Order dated February 6, 2004) to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2005. Such authority will allow Appalachian sufficient alternatives and flexibility when striving to reduce its effective interest cost and manage interest cost on financings.

A. Interest Rate Management Agreements

The Interest Rate Management Agreements will be products commonly used in today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which is to manage and minimize interest costs. Appalachian expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed

period and a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of Appalachian's existing debt obligations, including pollution control revenue bonds.

By way of illustration, if Appalachian has entered into Interest Rate Management Agreements whose aggregate notional amounts equal 25% of Appalachian's existing debt obligations, Appalachian could not enter into a new Interest Rate Management Agreement unless and until an existing Interest Rate Management Agreement expired, was terminated with the assent of the counterparty, or was assigned to a non-affiliated third party (at which point Appalachian could enter into a new Interest Rate Management Agreement in a notional amount no greater than the expired, terminated or assigned Interest Rate Management Agreement). Appalachian will not agree to any covenant more restrictive than those contained in the underlying obligation unless such Interest Rate Management Agreement either expires by its terms or is unwindable on or prior to the end of the Authorization Period.

B. Pricing Parameters

Appalachian proposes that the pricing parameters for Interest Rate Management Agreements be governed by the parameters contained herein. Fees and commissions (but not payments) in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed the greater of: (a) 2.50% of the amount of the underlying obligation involved or (b) amounts that are consistent with fees and commissions paid by similar companies of comparable credit quality in connection with similar agreements.

C. Accounting

Appalachian proposes to account for these transactions in accordance with generally accepted accounting principles.

D. Commission Authorization

Since market opportunities for these interest rate management alternatives are transitory, Appalachian must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Appalachian seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Appalachian reaches agreement with respect to the terms of such transactions.

If Appalachian utilizes Interest Rate Management Agreements, Appalachian's annual long-term interest charges could change. The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way relieves Appalachian of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize Appalachian to agree to such terms and prices consistent with said parameters.

5. Any proceeds realized from the sale of the Notes, together with any other funds which may become available to Appalachian, will be used to redeem directly or indirectly long-term debt, to refund directly or indirectly preferred stock, to repay short-term debt at or prior to maturity, to reimburse Appalachian's treasury for expenditures incurred in connection with its construction program and for other corporate purposes. Appalachian's First Mortgage Bonds, 8.0% Series due 2025 (\$45,000,000 principal amount outstanding) may be redeemed June 1, 2005 at a regular redemption price of 104% of the principal amount thereof. The redemption will occur if Appalachian considers that the payment of the premium of 4.0% is prudent in light

of the substantial amounts of interest expense that could be saved by early redemption of one or all of these series. In addition, Appalachian estimates that approximately \$465,000,000 (exclusive of allowance for funds used during construction) will be expended throughout the authorization period in connection with its construction program; however, this may increase if certain environmental projects are accelerated. In 2005 Appalachian has debt maturities of \$530,000,000. The maturities consist of \$50,000,000 of 8.00% First Mortgage Bonds due May 1, 2005, \$450,000,000 of Series E Senior Notes due June 15, 2005, and \$30,000,000 6.89% First Mortgage Bonds due June 22, 2005.

Appalachian may purchase first mortgage bonds, senior notes, junior subordinated debentures or trust preferred securities referred to herein or any other series of indebtedness or any series of preferred stock through tender offer, negotiated, open market or other form of purchase or otherwise in addition to redemption, if they can be refunded at a lower effective cost.

The tender offers will occur if Appalachian considers that the payment of the necessary premium is prudent in light of the interest expense that could be saved by early redemption of any of these series.

* * *

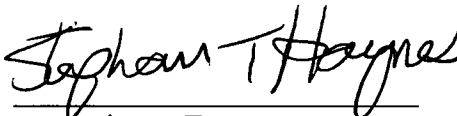
6. Appalachian believes that the consummation of the transactions herein proposed will be in the best interests of Appalachian's consumers and investors and consistent with sound and prudent financial policy.

7. Balance Sheets and Statements of Income and Retained Earnings for the twelve months ended June 30, 2004 are attached hereto as Exhibit C.

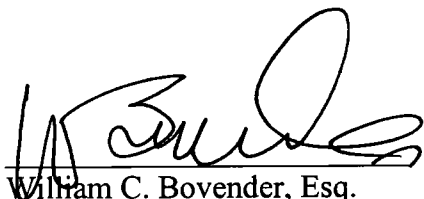
8. The issuance of the Notes will be effected in compliance with all applicable indenture, charter and other standards relating to debt and equity securities and capitalization ratios of Appalachian.

WHEREFORE, your Petitioner respectfully prays that your Honorable Authority enter an order (1) consenting to and approving the issuance, sale and delivery by Appalachian of First Mortgage Bonds in the aggregate principal amount equal to, on the date or dates of issuance, of up to \$950,000,000 as in this Application proposed, to be secured by its Mortgage and Deed of Trust, dated as of December 1, 1940, as amended and supplemented and as to be further amended and supplemented by one or more new Supplemental Indentures in substantially the form filed as an exhibit hereto or similar documentation; and in the alternative, the issuance and sale by Appalachian of Senior Notes or other unsecured promissory notes in the principal amount equal to, on the date or dates of issuance, of up to \$950,000,000 pursuant to their respective Indentures and company orders in substantially the form filed as exhibits hereto or similar documentation; and (2) granting to your Petitioner such other, further or general relief as, in the judgment of your Honorable Authority, your Petitioner may be entitled to have upon the facts hereinabove set forth.

APPALACHIAN POWER COMPANY

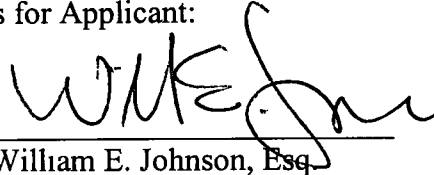
By 
Assistant Treasurer

Dated: October 18, 2004



William C. Bovender, Esq.
Hunter, Smith & Davis LLP
P.O. Box 3740
Kingsport, TN 37664

Attorneys for Applicant:



William E. Johnson, Esq.
American Electric Power Service Corporation
P.O. Box 16631
Columbus, OH 43216-6631

STATE OF OHIO)
) ss:
COUNTY OF FRANKLIN)

Before me, Mary M. Soltesz, a Notary Public in and for the State and County aforesaid, this 18th day of October, 2004, personally appeared Stephan T. Haynes, to me known to be the person whose name is signed to the foregoing Application, and after being first duly sworn made oath and said that he is the Assistant Treasurer of Appalachian Power Company, that he has read the Application and know the contents thereof, that the allegations therein are true and correct to the best of his knowledge, information and belief, and that he is duly authorized to make, verify and file the Application for Appalachian Power Company.

Subscribed and sworn to before me this 18th day of October, 2004.

Mary M. Soltesz
Notary Public

MARY M. SOLTESZ
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires 07-13-2009

EXECUTED IN 12 COUNTERPARTS OF
WHICH THIS IS COUNTERPART NO. 12

Indenture Supplemental

TO

Mortgage and Deed of Trust
(Dated as of December 1, 1940)

Executed by

APPALACHIAN POWER COMPANY
formerly Appalachian Electric Power Company

TO

BANKERS TRUST COMPANY,
As Trustee

Dated as of May 1, 1997

\$48,000,000 First Mortgage Bonds,
Designated Secured Medium Term Notes,
6.71% Series due June 1, 2000

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The Table of Contents shall not be deemed to be any part of the Indenture Supplemental to Mortgage and Deed of Trust.

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SUPPLEMENTAL INDENTURE, dated as of the first day of May in the year One Thousand Nine Hundred and Ninety-seven, made and entered into by and between APPALACHIAN POWER COMPANY, a corporation of the Commonwealth of Virginia, the corporate title of which was, prior to April 17, 1958, APPALACHIAN ELECTRIC POWER COMPANY (hereinafter sometimes called the "Company"), a transmitting utility (as such term is defined in Section 46-9-105(1)(n) of the West Virginia Code), party of the first part, and BANKERS TRUST COMPANY, a corporation of the State of New York (hereinafter sometimes called the "Corporate Trustee" or "Trustee"), as Trustee, party of the second part.

WHEREAS, the Company has heretofore executed and delivered its Mortgage and Deed of Trust (hereinafter sometimes referred to as the "Mortgage"), dated as of December 1, 1940, to the Trustee for the security of all bonds of the Company outstanding thereunder, and by said Mortgage conveyed to the Trustee, upon certain trusts, terms and conditions, and with and subject to certain provisos and covenants therein contained, all and singular the property, rights and franchises which the Company then owned or should thereafter acquire, excepting any property expressly excepted by the terms of the Mortgage; and

WHEREAS, the Company has heretofore executed and delivered to the Trustee supplements and indentures supplemental to the Mortgage, dated as of December 1, 1943, December 2, 1946, December 1, 1947, March 1, 1950, June 1, 1951, October 1, 1952, December 1, 1953, March 1, 1957, May 1, 1958, October 2, 1961, April 1, 1962, June 1, 1965, September 2, 1968, December 1, 1968, October 1, 1969, June 1, 1970, October 1, 1970, September 1, 1971, February 1, 1972, December 1, 1972, July 1, 1973, March 1, 1974, April 1, 1975, May 1, 1975, December 1, 1975, April 1, 1976, September 1, 1976, November 1, 1977, May 1, 1979, August 1, 1979, February 1, 1980, November 1, 1980, April 1, 1982, October 1, 1983, February 1, 1987, September 1, 1987, November 1, 1989, December 1, 1990, August 1, 1991, February 1, 1992, May 1, 1992, August 1, 1992, November 15, 1992, April 15, 1993, May 15, 1993, October 1, 1993, November 1, 1993, August 15, 1994, October 1, 1994, March 1, 1995, May 1, 1995, June 1, 1995, March 1, 1996 and February 1, 1997 (hereinafter referred to as the "First 1997 Supplemental Indenture"), respectively, amending and supplementing the Mortgage in certain respects (the Mortgage, as so amended and supplemented, being hereinafter called the "Original Indenture") and conveying to the Trustee, upon certain trusts, terms and conditions, and with and subject to certain provisos and covenants therein contained, certain property rights and property therein described; and

WHEREAS, effective October 7, 1988, pursuant to Section 115 of the Original Indenture, the Individual Trustee resigned and all powers of the Individual Trustee then terminated, as did the Individual Trustee's right, title or interest in and to the trust estate, and without appointment of a new trustee as successor to

the Individual Trustee, all the right, title and powers of the Trustee thereupon devolved upon the Corporate Trustee and its successors alone; and

WHEREAS, the Original Indenture provides that bonds issued thereunder may be issued in one or more series and further provides that, with respect to each series, the rate or rates of interest, the date or dates of maturity, the dates for the payment of interest, the terms and rates of optional redemption, and other terms and conditions not inconsistent with the Original Indenture may be established, prior to the issue of bonds of such series, by an indenture supplemental to the Original Indenture; and

WHEREAS, Section 132 of the Original Indenture provides that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Original Indenture, whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued under the Original Indenture and provide that a breach thereof shall be equivalent to a default under the Original Indenture, or the Company may cure any ambiguity or correct or supplement any defective or inconsistent provisions contained in the Original Indenture or in any indenture supplemental to the Original Indenture, by an instrument in writing, executed and acknowledged, and that the Trustee is authorized to join with the Company in the execution of any such instrument or instruments; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as amended and supplemented as of the respective dates thereof, bonds of the series (which are outstanding), entitled and designated as hereinafter set forth, in the respective original aggregate principal amounts indicated:

| <u>Series</u> | | <u>Amount</u> |
|------------------------------|----------------------|---------------|
| First Mortgage Bonds, 7.00% | Series due 1999. . . | \$30,000,000 |
| First Mortgage Bonds, 6.35% | Series due 2000. . . | 48,000,000 |
| First Mortgage Bonds, 6-3/8% | Series due 2001. . . | 100,000,000 |
| First Mortgage Bonds, 7.95% | Series due 2002. . . | 60,000,000 |
| First Mortgage Bonds, 7.38% | Series due 2002. . . | 50,000,000 |
| First Mortgage Bonds, 7.40% | Series due 2002. . . | 30,000,000 |
| First Mortgage Bonds, 6.65% | Series due 2003. . . | 40,000,000 |
| First Mortgage Bonds, 6.85% | Series due 2003. . . | 30,000,000 |
| First Mortgage Bonds, 6.00% | Series due 2003. . . | 30,000,000 |
| First Mortgage Bonds, 7.70% | Series due 2004. . . | 21,000,000 |

| | | | |
|-----------------------|--------|------------------|-------------|
| First Mortgage Bonds, | 7.85% | Series due 2004. | 50,000,000 |
| First Mortgage Bonds, | 8.00% | Series due 2005. | 50,000,000 |
| First Mortgage Bonds, | 6.89% | Series due 2005. | 30,000,000 |
| First Mortgage Bonds, | 6.80% | Series due 2006. | 100,000,000 |
| First Mortgage Bonds, | 8.75% | Series due 2022. | 50,000,000 |
| First Mortgage Bonds, | 8.70% | Series due 2022. | 40,000,000 |
| First Mortgage Bonds, | 8.43% | Series due 2022. | 50,000,000 |
| First Mortgage Bonds, | 8.50% | Series due 2022. | 70,000,000 |
| First Mortgage Bonds, | 7.80% | Series due 2023. | 40,000,000 |
| First Mortgage Bonds, | 7.90% | Series due 2023. | 30,000,000 |
| First Mortgage Bonds, | 7.15% | Series due 2023. | 30,000,000 |
| First Mortgage Bonds, | 7.125% | Series due 2024. | 50,000,000 |
| First Mortgage Bonds, | 8.00% | Series due 2025. | 50,000,000 |

and

WHEREAS, the Company, by appropriate corporate action in conformity with the terms of the Original Indenture, has duly determined to create a series of bonds under the Original Indenture to be designated as "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000" (hereinafter sometimes referred to as the "bonds of the 62nd Series"); and

WHEREAS, each of the bonds of the 62nd Series is to be substantially in the form set forth in Schedule I to this Supplemental Indenture (hereinafter sometimes referred to as the "Second 1997 Supplemental Indenture"); and

WHEREAS, the Company, in the exercise of the powers and authorities conferred upon and reserved to it under and by virtue of the provisions of the Original Indenture, and pursuant to resolutions of its Board of Directors, has duly resolved and determined to make, execute and deliver to the Trustee a supplemental indenture, in the form hereof, for the purposes herein provided; and

WHEREAS, all conditions and requirements necessary to make this Second 1997 Supplemental Indenture a valid, binding and legal instrument in accordance with its terms, have been done, performed and fulfilled, and the execution and delivery thereof have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That Appalachian Power Company, in consideration of the premises and of the purchase and acceptance of the bonds by the holders thereof and of the sum of One Dollar (\$1.00) and other good and valuable consideration paid to it by the Trustee at or before the ensembling and delivery of these presents, the receipt whereof is hereby acknowledged, and in order to secure the payment of both

the principal of and interest and premium, if any, on the bonds from time to time issued under and secured by the Original Indenture and this Second 1997 Supplemental Indenture, according to their tenor and effect, and the performance of all the provisions of the Original Indenture and this Second 1997 Supplemental Indenture (including any further indenture or indentures supplemental to the Original Indenture and any modification or alteration made as in the Original Indenture provided) and of said bonds, has granted, bargained, sold, released, conveyed, transferred, mortgaged, pledged, set over and confirmed, and by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto Bankers Trust Company, as Trustee, and to its respective successor or successors in the trust hereby created, and to its and their assigns, all the following described properties of the Company, that is to say:

All property, real, personal and mixed, tangible and intangible, and all franchises owned by the Company on the date of the execution hereof, acquired since the execution of the First 1997 Supplemental Indenture (except any hereinafter expressly excepted from the lien and operation of this Second 1997 Supplemental Indenture).

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 63 of the Original Indenture) the tolls, rents, revenues, issues, earnings, income, product and profits thereof and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

Provided that, in addition to the reservations and exceptions herein elsewhere contained, the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Original Indenture and this Second 1997 Supplemental Indenture, viz.: (1) cash, shares of stock, and obligations (including bonds, notes and other securities) not hereinafter or in the Original Indenture specifically pledged, deposited or delivered hereunder or thereunder or hereinafter or therein covenanted so to be; (2) any goods, wares, merchandise, equipment, materials or supplies acquired for the purpose of sale or resale in the usual course of business or for consumption in the operation of any properties of the Company and automobiles and trucks; (3) all judgments, accounts, and choses in action, the proceeds of which the Company is not obligated as hereinafter

provided or as provided in the Original Indenture to deposit with the Trustee hereunder and thereunder; provided, however, that the property and rights expressly excepted from the lien and operation of the Original Indenture and this Second 1997 Supplemental Indenture in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted, in the event that the Trustee or a receiver or trustee shall enter upon and take possession of the mortgaged and pledged property in the manner provided in Article XIV of the Original Indenture by reason of the occurrence of a completed default, as defined in said Article XIV.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustee and its successors in the trust;

SUBJECT, HOWEVER, to the reservations, exceptions, conditions, limitations and restrictions contained in the several deeds, leases, servitudes, franchises and contracts or other instruments through which the Company acquired and/or claims title to and/or enjoys the use of the aforesaid properties; and subject also to encumbrances of the character defined in Section 6 of the Original Indenture as "excepted encumbrances" in so far as the same may attach to any of the property embraced herein.

Inasmuch as the Company holds certain of said lands, rights of way and other property under leases, power agreements and other contracts which provide that the Company's interest therein shall not be mortgaged without the consent of the respective lessors or other parties to said agreements and contracts, and such lessors and parties have either given such consent or have waived the requirement of such consent, it is hereby expressly agreed and made a condition upon which this Second 1997 Supplemental Indenture is executed and delivered, that the lien of this Second 1997 Supplemental Indenture and the estate, rights and remedies of the Trustee hereunder, and the rights and remedies of the holders of the bonds secured hereby and by the Original Indenture in so far as they may affect such lands, rights of way and other property now held or to be hereafter acquired by the Company under such leases, contracts or agreements, shall be subject and subordinate in all respects to the rights and remedies of the respective lessors or other parties thereto.

And it is hereby expressly covenanted and agreed as follows:

(a) That the rights of the Trustee hereunder, and of every person or corporation whatsoever claiming by reason of this Second 1997 Supplemental Indenture any right, title or interest, legal or equitable, in the property covered by any

such lease, power agreement or other contract, are and at all times hereafter shall be subject in the same manner and degree as the rights of the Company might or would at all times be subject, had this Second 1997 Supplemental Indenture not been made, to all terms, provisions, conditions, covenants, stipulations, and agreements, and to all exceptions, reservations, limitations, restrictions, and forfeitures contained in any such lease, power agreement or other contract;

(b) That any right, claim, condition or forfeiture which might at any time be asserted against the party in possession under the provisions of any such lease, power agreement or other contract, had this Second 1997 Supplemental Indenture not been made, may be asserted with the same force and effect against any and all persons or corporations at any time claiming any right, title or interest in any such property under or by reason of this Second 1997 Supplemental Indenture or of any bond hereby and by the Original Indenture secured; and

(c) That such consent or waiver of the requirement of such consent given by the lessor under any such lease or party to any such power agreement or other contract is intended and shall be construed to be solely for the purpose of permitting the Company to mortgage its property generally without violating the express covenant contained in such lease, power agreement or other contract, and that such consent or waiver of the requirement of such consent confers upon the Trustee hereunder and the holders of bonds secured hereby and by the Original Indenture no rights in addition to such as they would have had, respectively, if such consent or waiver of the requirement of such consent had not been given.

IN TRUST NEVERTHELESS, upon the terms and trusts in the Original Indenture and this Second 1997 Supplemental Indenture set forth, for the equal and pro rata benefit and security of those who shall hold the bonds and coupons issued and to be issued hereunder and under the Original Indenture, in accordance with the terms of the Original Indenture and of this Second 1997 Supplemental Indenture, without preference, priority or distinction as to lien of any of said bonds or coupons over any other thereof by reason of priority in the time of issuance or negotiation thereof, or otherwise howsoever, subject, however, to the conditions, provisions and covenants set forth in the Original Indenture and in this Second 1997 Supplemental Indenture.

AND THIS INDENTURE FURTHER WITNESSETH:

That in further consideration of the premises and for the considerations aforesaid, the Company, for itself and its successors and assigns, hereby covenants and agrees to and with the Trustee, and its successor or successors in such trust, under the Original Indenture, as follows:

Section 1. The Original Indenture is hereby supplemented by adding immediately after Section 20HHH, a new Section 20III, as follows:

SECTION 20III. The Company hereby creates a sixty-second series of bonds to be issued under and secured by this Indenture, to be designated and to be distinguished from the bonds of all other series by the title "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000" (herein sometimes referred to as the "bonds of the 62nd Series"). The form of the bonds of the 62nd Series shall be substantially as set forth in Schedule I to the Second 1997 Supplemental Indenture.

Bonds of the 62nd Series shall mature on the date specified in their title. Unless otherwise determined by the Company, the bonds of the 62nd Series shall be issued in fully registered form without coupons in denominations of \$1,000 and in integral multiples thereof; the principal of and premium (if any) and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in lawful money of the United States of America, provided that at the option of the Company interest may be mailed to registered owners of the bonds at their respective addresses that appear on the register thereof; and the rate of interest shall be the rate per annum specified in the title thereof, payable semi-annually on the first days of April and October of each year (commencing October 1, 1997) and on their maturity date.

The person in whose name any bond of the 62nd Series is registered at the close of business on any record date (as hereinbelow defined) with respect to any regular semi-annual interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such bond of the 62nd Series upon any registration of transfer or exchange thereof subsequent to the record date and prior to such interest payment date, except, if and to the extent that the Company shall default in the payment of the interest due on such interest payment date, then the registered owners of bonds of the 62nd Series on such record date shall have no further right to or claim in respect

of such defaulted interest as such registered owners on such record date, and the persons entitled to receive payment of any defaulted interest thereafter payable or paid on any bonds of the 62nd Series shall be the registered owners of such bonds of the 62nd Series (or any bond or bonds issued, directly or after intermediate transactions upon transfer or exchange or in substitution thereof) on the date of payment of such defaulted interest. Interest payable upon maturity shall be payable to the person to whom the principal is paid. The term "record date" as used in this Section 20III, and in the form of the bonds of the 62nd Series, with respect to any regular semi-annual interest payment date applicable to the bonds of the 62nd Series, shall mean the March 15 next preceding an April 1 interest payment date or the September 15 next preceding an October 1 interest payment date, as the case may be, or, if such March 15 or September 15 is not a Business Day (as defined hereinbelow), the next preceding Business Day. The term "Business Day" with respect to any bond of the 62nd Series shall mean any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in The City of New York, New York or the city in which is located any office or agency maintained for the payment of principal of or premium, if any, or interest on such bond of the 62nd Series are authorized or required by law, regulation or executive order to remain closed.

Every registered bond of the 62nd Series shall be dated the date of authentication ("Issue Date") and shall bear interest computed on the basis of a 360-day year consisting of twelve 30-day months from its Issue Date or from the latest semi-annual interest payment date to which interest has been paid on the bonds of the 62nd Series preceding the Issue Date, unless such Issue Date be an interest payment date to which interest is being paid on the bonds of the 62nd Series, in which case it shall bear interest from its Issue Date or unless the Issue Date be the record date for the interest payment date first following the date of original issuance of bonds of the 62nd Series (the "Original Issue Date"), or a date prior to such record date, then from the Original Issue Date; provided that, so long as there is no existing default in the payment of interest on said bonds, the owner of any bond authenticated by the Corporate Trustee between the record date for any regular semi-annual interest payment date and such interest payment date shall not be entitled to the payment of the interest due on such interest payment date and shall have no claim against the Company with respect thereto; provided further, that, if and to the extent the Company shall default in the payment of the interest due on such interest payment date, then any such bond shall bear interest from the April 1 or October 1, as the case may be, next preceding its

Issue Date, to which interest has been paid or, if the Company shall be in default with respect to the interest payment date first following the Original Issue Date, then from the Original Issue Date.

If any semi-annual interest payment date or the maturity date is not a Business Day, payment of amounts due on such date may be made on the next succeeding Business Day, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on such amounts for the period from and after such interest payment date or the maturity date, as the case may be, to such Business Day.

Notwithstanding the provisions of Section 14 of this Indenture, the bonds of the 62nd Series shall be executed on behalf of the Company by its Chairman of the Board, by its President or by one of its Vice Presidents or by one of its officers designated by the Board of Directors of the Company for such purpose, whose signature may be a facsimile, and its corporate seal shall be thereunto affixed or printed thereon and attested by its Secretary or one of its Assistant Secretaries, and the provisions of the penultimate sentence of said Section 14 shall be applicable to such bonds of the 62nd Series.

The bonds of the 62nd Series are not redeemable prior to their maturity.

Notwithstanding the provisions of Section 12 of this Indenture, the Company shall not be required to make transfers or exchanges of bonds of the 62nd Series for a period of fifteen days next preceding any interest payment date.

Registered bonds of the 62nd Series shall be transferable upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and at such other office or agency of the Company as the Company may from time to time designate, by the registered owners thereof, in person or by duly authorized attorney, in the manner and upon payment, if required by the Company, of the charges prescribed in this Indenture. In the manner and upon payment, if required by the Company, of the charges prescribed in this Indenture, registered bonds of the 62nd Series may be exchanged for a like aggregate principal amount of registered bonds of the 62nd Series of other authorized denominations, upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, or at such other office or agency of the Company as the Company may from time to time designate.

Section 2. Initial Issuance of the Bonds of the 62nd Series:

In accordance with and upon compliance with such provisions of the Original Indenture as shall be selected for such purpose by the officers of the Company duly authorized to take such action, bonds of the 62nd Series, in an aggregate principal amount not exceeding \$48,000,000, shall forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company (without awaiting the filing and recording of this Second 1997 Supplemental Indenture except to the extent required by subdivision (10) of Section 29 of the Original Indenture).

Section 3. At any meeting of bondholders held as provided for in Article XX of the Original Indenture at which owners of bonds of the 62nd Series are entitled to vote, all owners of bonds of the 62nd Series at the time of such meeting shall be entitled to vote thereat; provided, however, that the Trustee may, and upon request of the Company or of a majority of the bondowners of the 62nd Series, shall, fix a day not exceeding ninety days preceding the date for which the meeting is called as a record date for the determination of owners of bonds of the 62nd Series, entitled to notice of and to vote at such meeting and any adjournment thereof and only such registered owners who shall have been such registered owners on the date so fixed, and who are entitled to vote such bonds of the 62nd Series at the meeting, shall be entitled to receive notice of such meeting.

Section 4. As supplemented by this Second 1997 Supplemental Indenture, the Original Indenture is in all respects ratified and confirmed and the Original Indenture and this Second 1997 Supplemental Indenture shall be read, taken and construed as one and the same instrument. The bonds of the 62nd Series are the original debt secured by this Second 1997 Supplemental Indenture and the Original Indenture, and this Second 1997 Supplemental Indenture and the Original Indenture shall be, and shall be deemed to be, the original lien instrument securing the bonds of the 62nd Series.

Section 5. Nothing contained in this Second 1997 Supplemental Indenture shall, or shall be construed to, confer upon any person other than the owners of bonds issued under the Original Indenture and this Second 1997 Supplemental Indenture, the Company and the Trustee, any right to avail themselves of any benefit of any provision of the Original Indenture or of this Second 1997 Supplemental Indenture.

Section 6. This Second 1997 Supplemental Indenture may be simultaneously executed in several counterparts and all such

counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

IN WITNESS WHEREOF, APPALACHIAN POWER COMPANY, party of the first part, has caused this instrument to be signed in its name and behalf by its President, a Vice President, its Treasurer or an Assistant Treasurer, and its corporate seal to be hereunto affixed and attested by its Secretary or an Assistant Secretary, and BANKERS TRUST COMPANY, party of the second part, in token of its acceptance hereof, has caused this instrument to be signed in its name and behalf by a Vice President or an Assistant Vice President and its corporate seal to be hereunto affixed and attested by its Secretary, an Assistant Secretary, Assistant Vice President or Assistant Treasurer. Executed and delivered as of the date and year first above written.

APPALACHIAN POWER COMPANY

[SEAL]

By: B. M. Barber
B. M. Barber
Assistant Treasurer

Attest:

John M. Adams, Jr.
John M. Adams, Jr.
Assistant Secretary

In the presence of:

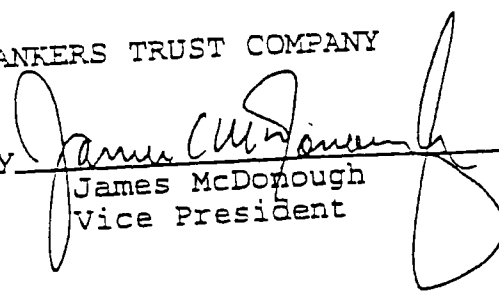
David C. House
David C. House

Ann B. Graf
Ann B. Graf

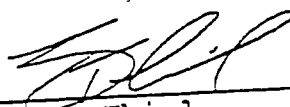
[SEAL]

BANKERS TRUST COMPANY

By

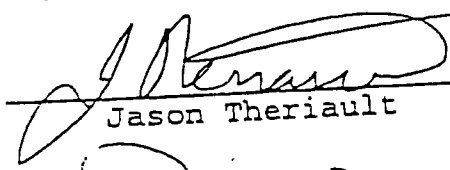

James McDonough
Vice President

Attest:

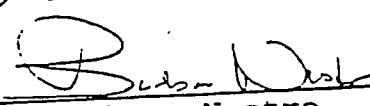


Scott Thiel
Assistant Vice President

Executed by BANKERS TRUST COMPANY
in the presence of:



Jason Theriault



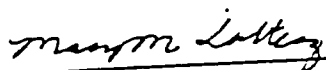
Barbara Nastro

STATE OF OHIO)
) SS:
COUNTY OF FRANKLIN)

On this 14th day of May, 1997, personally appeared before me, a Notary Public within and for said County in the State aforesaid, B. M. BARBER and JOHN M. ADAMS, JR., to me known and known to me to be respectively an Assistant Treasurer and Assistant Secretary of APPALACHIAN POWER COMPANY, one of the corporations named in and which executed the foregoing instrument, who severally acknowledged that they did sign and seal said instrument as such Assistant Treasurer and Assistant Secretary for and on behalf of said corporation and that the same is their free act and deed as such Assistant Treasurer and Assistant Secretary, respectively, and the free and corporate act and deed of said corporation.

In Witness Whereof, I have hereunto set my hand and notarial seal this 14th day of May, 1997.

[Notarial Seal]



MARY M. SOLTESZ
Notary Public, State of Ohio
My Commission Expires July 12, 1999

STATE OF NEW YORK)
)
COUNTY OF NEW YORK) SS:

I, PATRICIA M. CARILLO, a Notary Public, duly qualified, commissioned and sworn, and acting in and for the County and State aforesaid, hereby certify that on this 15th day of May, 1997:

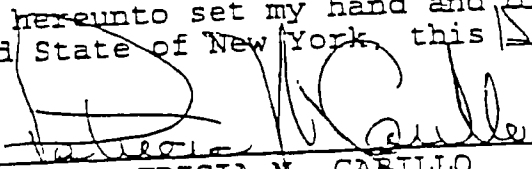
JAMES MC DONOUGH and SCOTT THIEL, whose names are signed to the writing above, bearing a date as of the 1st day of May, 1997, as Vice President and Assistant Vice President, respectively, of BANKERS TRUST COMPANY, have this day acknowledged the same before me in my County aforesaid.

JAMES MC DONOUGH who signed the writing above and hereto annexed for BANKERS TRUST COMPANY, a corporation, bearing a date as of the 1st day of May, 1997, has this day in my said County before me acknowledged the said writing to be the act and deed of said corporation.

Before me appeared JAMES MC DONOUGH and SCOTT THIEL to me personally known, who, being by me duly sworn, did say that they are Vice President and Assistant Vice President, respectively, of BANKERS TRUST COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors and said JAMES MC DONOUGH acknowledged said instrument to be the free act and deed of said corporation.

SCOTT THIEL personally came before me this day and acknowledged that he is an Assistant Vice President of BANKERS TRUST COMPANY, a corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by an Assistant Vice President, sealed with its corporate seal, and attested by himself as an Assistant Vice President.

IN WITNESS WHEREOF, I have hereunto set my hand and official notarial seal, in the County and State of New York, this 15th day of May, 1997.


PATRICIA M. CARILLO
Notary Public, State of New York
No. 41-4747732
Qualified in Queens County
Certificate filed in New York County
Commission expires May 31, 1997

[SEAL]

The foregoing instrument was prepared by David C. House, 1 Riverside Plaza, Columbus, Ohio 43215.

SCHEDULE I

APPALACHIAN POWER COMPANY
FIRST MORTGAGE BOND, DESIGNATED
SECURED MEDIUM TERM NOTE, 6.71%
SERIES DUE JUNE 1, 2000

Bond No.
Original Issue Date: May 27, 1997
Principal Amount:
Semi-annual Interest Payment Dates: April 1 and October 1
Record Dates: March 15 and September 15
CUSIP No: 03774B AY9

APPALACHIAN POWER COMPANY, a corporation of the Commonwealth of Virginia (hereinafter called the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the Principal Amount set forth above on the maturity date specified in the title of this bond in lawful money of the United States of America, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and to pay to the registered owner hereof interest on said sum from the date of authentication of this bond (herein called the "Issue Date") or latest semi-annual interest payment date to which interest has been paid on the bonds of this series preceding the Issue Date, unless the Issue Date be an interest payment date to which interest is being paid, in which case from the Issue Date or unless the Issue Date be the record date for the interest payment date first following the Original Issue Date set forth above or a date prior to such record date, then from the Original Issue Date (or, if the Issue Date is between the record date for any interest payment date and such interest payment date, then from such interest payment date, provided, however, that if and to the extent that the Company shall default in the payment of the interest due on such interest payment date, then from the next preceding semi-annual interest payment date to which interest has been paid on the bonds of this series, or if such interest payment date is the interest payment date first following the Original Issue Date set forth above, then from the Original Issue Date), until the principal hereof shall have become due and payable, at the rate per annum specified in the title of this bond, payable on April 1 and October 1 of each year (commencing October 1, 1997) and on the maturity date specified in the title of this bond; provided that, at the option of the Company, such interest may be paid by check, mailed to the registered owner of this bond at such owner's address appearing on the register hereof.

This bond is one of a duly authorized issue of bonds of the Company, issuable in series, and is one of a series known as its First Mortgage Bonds, of the series designated in its title, all bonds of all series issued and to be issued under and equally secured (except in so far as any sinking fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for the bonds of any particular series and except as provided in Section 73 of the Mortgage) by a Mortgage and Deed of Trust (herein, together with all indentures supplemental thereto, called the Mortgage), dated as of December 1, 1940, executed by APPALACHIAN ELECTRIC POWER COMPANY (the corporate title of which was changed to APPALACHIAN POWER COMPANY) to BANKERS TRUST COMPANY, as Trustee, to which Mortgage reference is made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustee in respect thereof, the duties and immunities of the Trustee, and the terms and conditions upon which the bonds are secured. With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage and/or of any instruments supplemental thereto may be modified or altered by affirmative vote of the holders of at least seventy-five per centum (75%) in principal amount of the bonds affected by such modification or alteration, then outstanding under the Mortgage (excluding bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the owner hereof no such modification or alteration shall permit the extension of the maturity of the principal or interest on this bond or the reduction in the rate of interest hereon or any other modification in the terms of payment of such principal or interest or the creation of a lien on the mortgaged and pledged property ranking prior to or on a parity with the lien of the Mortgage or the deprivation of the owner hereof of a lien upon such property or reduce the above percentage.

As provided in said Mortgage, said bonds may be for various principal sums and are issuable in series, which may mature at different times, may bear interest at different rates and may otherwise vary as therein provided, and this bond is one of a series entitled "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000 (herein called "bonds of the 62nd Series") created by an Indenture Supplemental to Mortgage and Deed of Trust dated as of May 1, 1997 (the "Second 1997 Supplemental Indenture"), as provided for in said Mortgage.

The interest payable on any April 1 or October 1 will, subject to certain exceptions provided in said Second 1997 Supplemental Indenture, be paid to the person in whose name this bond is registered at the close of business on the record date, which shall

be the March 15 or September 15, as the case may be, next preceding such interest payment date, or, if such March 15 or September 15 is not a Business Day (as hereinbelow defined), the next preceding Business Day. Interest payable upon maturity shall be payable to the person to whom the principal is paid. The term "Business Day" means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in The City of New York, New York or the city in which is located any office or agency maintained for the payment of principal or premium, if any, or interest on bonds of the 62nd Series are authorized or required by law, regulation or executive order to remain closed.

If any semi-annual interest payment date or the maturity date is not a Business Day, payment of amounts due on such date may be made on the next succeeding Business Day, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on such amounts for the period from and after such interest payment date or the maturity date, as the case may be, to such Business Day.

The Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment of or on account of principal or (subject to the provisions hereof) interest hereon and for all other purposes and the Company and the Trustee shall not be affected by any notice to the contrary.

The Company shall not be required to make transfers or exchanges of bonds of the 62nd Series for a period of fifteen days next preceding any interest payment date.

The Bonds of the 62nd Series are not redeemable prior to their maturity.

The principal hereof may be declared or may become due prior to the express date of the maturity hereof on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a completed default as in the Mortgage provided.

This bond is transferable as prescribed in the Mortgage by the registered owner hereof in person, or, by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and at such other office or agency of the Company as the Company may designate, upon surrender and cancellation of this bond and upon payment, if the Company shall require it, of the transfer charges prescribed in the Mortgage, and, thereupon, a new registered bond or bonds of authorized denominations of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. In the manner and upon payment, if the Company shall require it, of the charges prescribed in the Mortgage, registered

bonds of the 62nd Series may be exchanged for a like aggregate principal amount of registered bonds of other authorized denominations of the same series, upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, or at such other office or agency of the Company as the Company may from time to time designate.

No recourse shall be had for the payment of the principal of or interest on this bond against any incorporator or any past, present or future stockholder, officer or director, as such, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, stockholders, officers and directors, as such, being waived and released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become valid or obligatory for any purpose until BANKERS TRUST COMPANY, the Trustee under the Mortgage, or its successor thereunder, shall have signed the form of Authentication Certificate endorsed hereon.

In Witness Whereof, Appalachian Power Company has caused this bond to be executed in its name by the signature of its Chairman of the Board, its President, one of its Vice Presidents or its Treasurer and its corporate seal, or a facsimile thereof, to be impressed or imprinted hereon and attested by the signature of its Secretary or one of its Assistant Secretaries.

Dated:

APPALACHIAN POWER COMPANY

By _____
Treasurer

(SEAL)

Attest: _____
Assistant Secretary

TRUSTEE'S AUTHENTICATION CERTIFICATE

This bond is one of the bonds,
of the series herein designated,
described in the within-mentioned
Mortgage.

BANKERS TRUST COMPANY,
as Trustee,

By _____
Authorized Officer

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE)

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF
ASSIGNEE) the within Bond and all rights thereunder, hereby
irrevocably constituting and appointing such person attorney to
transfer such Bond on the books of the Issuer, with full power of
substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

July 1, 2004

Company Order and Officers' Certificate
Floating Rate Notes, Series C, due 2007

The Bank of New York, as Trustee
101 Barclay Street
New York, New York 10286
Attention: Corporate Trust Administration

Ladies and Gentlemen:

Pursuant to Article Two of the Indenture, dated as of January 1, 1998 (as it may be amended or supplemented, the "Indenture"), from Appalachian Power Company (the "Company") to The Bank of New York, as trustee (the "Trustee"), and the Board Resolutions dated February 24, 2004, a copy of which certified by the Secretary or an Assistant Secretary of the Company is being delivered herewith under Section 2.01 of the Indenture, and unless otherwise provided in a subsequent Company Order pursuant to Section 2.04 of the Indenture,

1. The Company's Floating Rate Notes, Series C, due 2007 (the "Notes") are hereby established. The Notes shall be in substantially the form attached hereto as Exhibit 1.

2. The terms and characteristics of the Notes shall be as follows (the numbered clauses set forth below correspond to the numbered subsections of Section 2.01 of the Indenture, with terms used and not defined herein having the meanings specified in the Indenture or in the Notes):

(i) the aggregate principal amount of Notes which may be authenticated and delivered under the Indenture shall be limited to \$125,000,000, except as contemplated in Section 2.01(i) of the Indenture;

(ii) the date on which the principal of the Notes shall be payable shall be June 29, 2007 ("Stated Maturity");

(iii) interest on the Notes shall be payable on March 29, June 29, September 29 and December 29 of each year (each, an "Interest Payment Date"), commencing on September 29, 2004 and shall accrue from and including the date of authentication of the Notes to, but excluding, September 29, 2004, and thereafter, from and including each Interest Payment Date to, but excluding, the next succeeding Interest

Payment Date or Stated Maturity, as the case may be; the Regular Record Date for the determination of holders to whom interest is payable on any such Interest Payment Date shall be the fifteenth calendar day preceding the relevant Interest Payment Date; provided that interest payable on Stated Maturity shall be paid to the Person to whom principal shall be paid;

(iv) the Notes will bear interest at a per annum rate ("Interest Rate") determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The Interest Rate for each Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.33%; provided, however, that in certain circumstances described below, the Interest Rate will be determined without reference to LIBOR.

If the following circumstances exist on any Interest Determination Date, the Calculation Agent shall determine the Interest Rate for the Notes as follows:

(1) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date, the Calculation Agent shall request the principal London offices of each of four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) to provide a quotation of the rate (the "Rate Quotation") at which three month deposits in amounts of not less than \$1,000,000 are offered by it to prime banks in the London interbank market, as of approximately 11:00 a.m. on such Interest Determination Date, that is representative of single transactions at such time (the "Representative Amounts"). If at least two Rate Quotations are provided, the interest rate will be the arithmetic mean of the Rate Quotations obtained by the Calculation Agent, plus 0.33%.

(2) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date and there are fewer than two Rate Quotations, the interest rate will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. New York City time on such Interest Determination Date, by three major banks in New York City selected by the Calculation Agent (after consultation with the Company), for loans in Representative Amounts in U. S. dollars to leading European banks, having an index maturity of three months for a period commencing on the second London Business Day immediately following such Interest Determination Date, plus 0.33%; provided, however, that if fewer than three banks selected by the Calculation Agent are quoting such rates, the interest rate for the applicable

Interest Period will be the same as the interest rate in effect for the immediately preceding Interest Period

(v) The Notes are not subject to redemption prior to their maturity. The Notes are not subject to the benefits of any sinking fund.

(vi)(a) the Notes shall be issued in the form of a Global Note; (b) the Depositary for such Global Note shall be The Depositary Trust Company; and (c) the procedures with respect to transfer and exchange of Global Notes shall be as set forth in the form of Note attached hereto;

(vii) the title of the Notes shall be "Floating Rate Notes, Series C, due 2007";

(viii) the form of the Notes shall be as set forth in Paragraph 1, above;

(ix) see item (iv) above;

(x) the Notes shall not be subject to a Periodic Offering;

(xi) not applicable;

(xii) not applicable;

(xiii) not applicable;

(xiv) the Notes shall be issuable in denominations of \$1,000 and any integral multiple thereof;

(xv) not applicable;

(xvi) the Notes shall not be issued as Discount Securities;

(xvii) not applicable;

(xviii) see item (iv) above; and

(xix) So long as any of the Notes are outstanding, the Company will not create or suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively "Liens") on any of its utility properties or tangible assets now owned or hereafter acquired to secure any indebtedness for borrowed money ("Secured Debt"), without providing that the Notes will be

similarly secured. This restriction does not apply to the Company's subsidiaries, nor will it prevent any of them from creating or permitting to exist Liens on their property or assets to secure any Secured Debt. Further, this restriction on Secured Debt does not apply to the Company's existing first mortgage bonds that have previously been issued under its Indenture, dated December 1, 1940, between the Company and Bankers Trust Company and R. Gregory Page, as Trustees or any indenture supplemental thereto; provided that this restriction will apply to future issuances thereunder (other than issuances of refunding first mortgage bonds). In addition, this restriction does not prevent the creation or existence of:

(a) Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;

(b) Financing of the Company's accounts receivable for electric service;

(c) Any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of liens permitted by the foregoing clauses; and

(d) The pledge of any bonds or other securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

"Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on the Company's balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the Company's current liabilities appearing on such balance sheet. For purposes of this definition, the Company's balance sheet does not include assets and liabilities of its subsidiaries.

This restriction also does not apply to or prevent the creation or existence of leases made, or existing on property acquired, in the ordinary course of business..

3. You are hereby requested to authenticate \$125,000,000 aggregate principal amount of Floating Rate Notes, Series C, due 2007, executed by the Company and delivered to you concurrently with this Company Order and Officers' Certificate, in the manner provided by the Indenture.

4. You are hereby requested to hold the Notes as custodian for DTC in accordance with the Letter of Representations dated June 24, 2004, from the Company to DTC.

5. Concurrently with this Company Order and Officers' Certificate, an Opinion of Counsel under Sections 2.04 and 13.06 of the Indenture is being delivered to you.

6. The undersigned Stephan T. Haynes and Thomas G. Berkemeyer, the Assistant Treasurer and Assistant Secretary, respectively, of the Company do hereby certify that:

(i) we have read the relevant portions of the Indenture, including without limitation the conditions precedent provided for therein relating to the action proposed to be taken by the Trustee as requested in this Company Order and Officers' Certificate, and the definitions in the Indenture relating thereto;

(ii) we have read the Board Resolutions of the Company and the Opinion of Counsel referred to above;

(iii) we have conferred with other officers of the Company, have examined such records of the Company and have made such other investigation as we deemed relevant for purposes of this certificate;

(iv) in our opinion, we have made such examination or investigation as is necessary to enable us to express an informed opinion as to whether or not such conditions have been complied with; and

(v) on the basis of the foregoing, we are of the opinion that all conditions precedent provided for in the Indenture relating to the action proposed to be taken by the Trustee as requested herein have been complied with.

Kindly acknowledge receipt of this Company Order and Officers' Certificate, including the documents listed herein, and confirm the arrangements set forth herein by signing and returning the copy of this document attached hereto.

Very truly yours,

APPALACHIAN POWER COMPANY

By: /s/ Stephan T. Haynes
Assistant Treasurer

And: /s/ Thomas G. Berkemeyer
Assistant Secretary

Acknowledged by Trustee:

THE BANK OF NEW YORK

By: /s/ Cynthia Chaney
Vice President

Unless this certificate is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any certificate to be issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein. Except as otherwise provided in Section 2.11 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor Depository or to a nominee of such successor Depository.

No. R1

APPALACHIAN POWER COMPANY
Floating Rate Notes, Series C, due 2007

CUSIP: 037735CA3

Original Issue Date: July 1, 2004

Stated Maturity: 06-29-2007

Principal Amount: \$125,000,000

| | | |
|-------------|------------------------------|--|
| Redeemable: | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| In Whole: | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| In Part: | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |

APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO. or registered assigns, the Principal Amount specified above on the Stated Maturity specified above, and to pay interest on said Principal Amount on March 29, June 29, September 29 and December 29 of each year, commencing on September 29, 2004 at the per annum interest rate determined by the Calculation Agent on each Interest Determination Date, as such terms are defined herein, until the Principal Amount shall have been paid or duly provided for. The amount of interest payable on any Interest Payment Date shall be computed on the basis of the actual number of days for which interest is payable in the relevant Interest Period, divided by 360.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, as provided in the Indenture, as hereinafter defined, shall be paid to the Person in whose name this Note (or one or more Predecessor Securities) shall have been registered at the close of business on the fifteenth calendar day before each Interest Payment Date (the "Regular Record Date") provided that interest payable on the Stated Maturity shall be paid to the Person to whom principal is paid. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the registered holder on such Regular Record Date and shall be paid as provided in said Indenture.

If any Interest Payment Date (other than at the Stated Maturity) is not a Business Day, then such Interest Payment Date shall be the next succeeding Business Day, except that if such Business Day is in the next calendar month, such Interest Payment Date shall be the immediately preceding Business Day. If the Stated Maturity of this Note falls on a day that is not a Business Day, the payment of principal and interest will be made on the next succeeding Business Day, and no interest shall accrue on such amounts for the period from and after such Stated Maturity. The principal of and the interest on this Note shall be payable at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, the City of New York, New York, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest (other than interest payable on the Stated Maturity) may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Security Register or by wire transfer to the account designated by the person entitled thereto.

This Note is one of a duly authorized series of Notes of the Company (herein sometimes referred to as the "Notes"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of January 1, 1998 duly executed and delivered between the Company and The Bank of New York, a corporation organized and existing under the laws of the State of New York, as Trustee (herein referred to as the "Trustee") (such Indenture, as originally executed and delivered and as thereafter supplemented and amended being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto or Company Orders reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the registered holders of the Notes. By the terms of the Indenture, the Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This Note is one of the series of Notes designated on the face hereof.

This Note may not be redeemed prior to its maturity. This Note is not subject to the benefits of any sinking fund.

This Note will bear interest at a per annum rate ("Interest Rate") determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The Interest Rate for each Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.33%; provided, however, that in certain circumstances described below, the Interest Rate will be determined without reference to LIBOR. Promptly upon such determination, the Calculation Agent will notify the Trustee for the Notes, if the Trustee is not then serving as the Calculation Agent, of the Interest Rate for the new Interest Period. The Interest Rate determined by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the beneficial owners and registered holders of this Note, the Company and the Trustee for the Notes.

Interest on this Note will accrue from and including the Original Issue Date specified above to, but excluding, September 29, 2004, and thereafter, from and including each Interest Payment Date to, but excluding, the next succeeding Interest Payment Date or Stated Maturity, as the case may be.

If the following circumstances exist on any Interest Determination Date, the Calculation Agent shall determine the Interest Rate for the Notes as follows:

(1) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date, the Calculation Agent shall request the principal London offices of each of four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) to provide a quotation of the rate (the "Rate Quotation") at which three month deposits in amounts of not less than \$1,000,000 are offered by it to prime banks in the London interbank market, as of approximately 11:00 a.m. on such Interest Determination Date, that is representative of single transactions at such time (the "Representative Amounts"). If at least two Rate Quotations are provided, the interest rate will be the arithmetic mean of the Rate Quotations obtained by the Calculation Agent, plus 0.33%.

(2) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date and there are fewer than two Rate Quotations, the interest rate will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. New York City time on such Interest Determination Date, by three major banks in New York City selected by the Calculation Agent (after consultation with the Company), for loans in Representative Amounts in U. S. dollars to leading European banks, having an index maturity of three months for a period commencing on the second London Business Day immediately following such Interest Determination Date, plus 0.33%; provided, however, that if fewer than three banks selected by the Calculation Agent are quoting such rates, the interest rate for the applicable Interest Period will be the same as the interest rate in effect for the immediately preceding Interest Period.

"Business Day" means, with respect to this Note, any day that is not a day on which banking institutions in New York City are authorized or required by law or regulation to close.

"Calculation Agent" means The Bank of New York, or its successor appointed by the Company, acting as calculation agent.

"Interest Determination Date" means the second London Business Day immediately preceding the first day of the relevant Interest Period.

"Interest Period" means the period commencing on an Interest Payment Date (or commencing on the Original Issue Date, if no interest has been paid or duly made available for payment since that date) and ending on the day before the next succeeding Interest Payment Date.

"LIBOR" for any Interest Determination Date will be the offered rate for deposits in U. S. dollars having an index maturity of three months for a period commencing on the second London Business Day immediately following the Interest Determination Date in amounts of not less than \$1,000,000, as such rate appears on Telerate Page 3750 or a successor reporter of such rates selected by the Calculation Agent and acceptable to the Company, at approximately 11:00 a.m. London time on the Interest Determination Date (the "Reported Rate").

"London Business Day" means a day other than a Saturday or Sunday that is not a day on which banking institutions in London, England and New York, New York are authorized or obligated by law or executive order to be closed and a day on which dealings in deposits in U. S.

dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"Telerate Page 3750" means the display designated on page 3750 on Moneyline Telerate, Inc. (or such other page as may replace the 3750 page on that service or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U. S. dollar deposits).

Upon request, the Calculation Agent will provide the current Interest Rate and, if determined, the Interest Rate which will become effective for the next Interest Period.

All percentages resulting from any calculation of the Interest Rate will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards, and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upwards).

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Note upon compliance by the Company with certain conditions set forth therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the registered holders of not less than a majority in aggregate principal amount of the Notes of each series affected at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the registered holders of the Notes; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Notes of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of a Discount Security that would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the Indenture, without the consent of the registered holder of each Note then outstanding and affected, (ii) reduce the aforesaid percentage of Notes, the registered holders of which are required to consent to any such supplemental indenture, or reduce the percentage of Notes, the registered holders of which are required to waive any default and its consequences, without the consent of the registered holder of each Note then outstanding and affected thereby; or (iii) modify any provision of Section 6.01(c) of the Indenture (except to increase the percentage of principal amount of securities required to rescind and annul any declaration of amounts due and payable under the Notes), without the consent of the registered holder of each Note then outstanding and affected thereby. The Indenture also contains provisions permitting the registered holders of a majority in aggregate principal amount of the Notes of all series at the time outstanding affected thereby, on behalf of the registered holders of the Notes of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Notes of such series. Any such consent or waiver by the registered holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such registered holder and upon all future registered holders and

owners of this Note and of any Note issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Note

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the time and place and at the rate and in the money herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, this Note is transferable by the registered holder hereof on the Security Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company as may be designated by the Company accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Notes of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto

Prior to due presentment for registration of transfer of this Note, the Company, the Trustee, any paying agent and any Security Registrar may deem and treat the registered holder hereof as the absolute owner hereof (whether or not this Note shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

The Notes of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the registered holder surrendering the same.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

APPALACHIAN POWER COMPANY

By: _____
Name: Stephan T. Haynes
Title: Assistant Treasurer

Attest:

By: _____
Name: Thomas G. Berkemeyer
Title: Assistant Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series of Notes designated in accordance with, and referred to in, the within-mentioned Indenture.

Dated: July 1, 2004

THE BANK OF NEW YORK

By: _____
Authorized Signatory

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE)

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF

ASSIGNEE) the within Note and all rights thereunder, hereby

irrevocably constituting and appointing such person attorney to

transfer such Note on the books of the Issuer, with full

power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Note in every particular, without alteration or enlargement or any change whatever and NOTICE: Signature(s) must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Signature Program ("MSP").

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2004 and 2003
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | (in thousands) | | | |
| OPERATING REVENUES | | | | |
| Electric Generation, Transmission and Distribution | \$413,383 | \$389,255 | \$885,958 | \$868,588 |
| Sales to AEP Affiliates | 51,047 | 55,496 | 104,929 | 112,391 |
| TOTAL | <u>464,430</u> | <u>444,751</u> | <u>990,887</u> | <u>980,979</u> |
| OPERATING EXPENSES | | | | |
| Fuel for Electric Generation | 98,694 | 112,680 | 209,405 | 232,545 |
| Purchased Electricity for Resale | 17,786 | 15,262 | 34,430 | 32,380 |
| Purchased Electricity from AEP Affiliates | 87,793 | 83,805 | 178,280 | 164,525 |
| Other Operation | 70,576 | 66,626 | 138,668 | 128,741 |
| Maintenance | 52,933 | 36,827 | 94,253 | 69,565 |
| Depreciation and Amortization | 47,231 | 46,065 | 95,144 | 82,073 |
| Taxes Other Than Income Taxes | 23,499 | 22,272 | 46,952 | 47,351 |
| Income Taxes | 19,836 | 12,158 | 60,276 | 62,059 |
| TOTAL | <u>418,348</u> | <u>395,695</u> | <u>857,408</u> | <u>819,239</u> |
| OPERATING INCOME | 46,082 | 49,056 | 133,479 | 161,740 |
| Nonoperating Income (Loss) | 3,540 | (324) | 9,087 | (4,624) |
| Nonoperating Expenses | 3,596 | 2,451 | 6,129 | 6,309 |
| Nonoperating Income Tax Credit | (1,263) | (2,451) | (1,625) | (6,184) |
| Interest Charges | <u>25,463</u> | <u>34,096</u> | <u>50,900</u> | <u>63,202</u> |
| Income Before Cumulative Effect of Accounting Changes | 21,826 | 14,636 | 87,162 | 93,789 |
| Cumulative Effect of Accounting Changes (Net of Tax) | <u>-</u> | <u>-</u> | <u>-</u> | <u>77,257</u> |
| NET INCOME | 21,826 | 14,636 | 87,162 | 171,046 |
| Preferred Stock Dividend Requirements (Including Capital Stock Expense) | <u>798</u> | <u>984</u> | <u>1,621</u> | <u>1,968</u> |
| EARNINGS APPLICABLE TO COMMON STOCK | <u>\$21,028</u> | <u>\$13,652</u> | <u>\$85,541</u> | <u>\$169,078</u> |

The common stock of APCo is wholly-owned by AEP.

See Notes to Financial Statements of Registrant Subsidiaries beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S
EQUITY AND COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2004 and 2003
(in thousands)
(Unaudited)

| | <u>Common Stock</u> | <u>Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total</u> |
|------------------------------------|-------------------------|----------------------------|------------------------------|--|--------------------|
| DECEMBER 31, 2002 | \$260,458 | \$717,242 | \$260,439 | \$(72,082) | \$1,166,057 |
| Common Stock Dividends | | | (64,133) | | (64,133) |
| Preferred Stock Dividends | | | (721) | | (721) |
| Capital Stock Expense | | 1,247 | (1,247) | | - |
| SFAS 71 Reapplication | | 162 | | | 162 |
| TOTAL | | | | | <u>1,101,365</u> |
| COMPREHENSIVE INCOME | | | | | |
| Other Comprehensive Income (Loss), | | | | | |
| Net of Taxes: | | | | | |
| Cash Flow Hedges | | | | (3,113) | (3,113) |
| NET INCOME | | | 171,046 | | 171,046 |
| TOTAL COMPREHENSIVE INCOME | | | | | <u>167,933</u> |
| JUNE 30, 2003 | <u>\$260,458</u> | <u>\$718,651</u> | <u>\$365,384</u> | <u>\$(75,195)</u> | <u>\$1,269,298</u> |
| DECEMBER 31, 2003 | \$260,458 | \$719,899 | \$408,718 | \$(52,088) | \$1,336,987 |
| Common Stock Dividends | | | (50,000) | | (50,000) |
| Preferred Stock Dividends | | | (400) | | (400) |
| Capital Stock Expense | | 1,221 | (1,221) | | - |
| TOTAL | | | | | <u>1,286,587</u> |
| COMPREHENSIVE INCOME | | | | | |
| Other Comprehensive Income (Loss), | | | | | |
| Net of Taxes: | | | | | |
| Cash Flow Hedges | | | | (4,462) | (4,462) |
| NET INCOME | | | 87,162 | | 87,162 |
| TOTAL COMPREHENSIVE INCOME | | | | | <u>82,700</u> |
| JUNE 30, 2004 | <u>\$260,458</u> | <u>\$721,120</u> | <u>\$444,259</u> | <u>\$(56,550)</u> | <u>\$1,369,287</u> |

See Notes to Financial Statements of Registrant Subsidiaries beginning on page L-1.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

June 30, 2004 and December 31, 2003
(Unaudited)

| | <u>2004</u> | <u>2003</u> |
|--|-----------------------|--------------------|
| | <u>(in thousands)</u> | |
| <u>ELECTRIC UTILITY PLANT</u> | | |
| Production | \$2,408,222 | \$2,287,043 |
| Transmission | 1,249,901 | 1,240,889 |
| Distribution | 2,033,834 | 2,006,329 |
| General | 302,053 | 294,786 |
| Construction Work in Progress | <u>321,620</u> | <u>311,884</u> |
| TOTAL | 6,315,630 | 6,140,931 |
| Accumulated Depreciation and Amortization | <u>2,382,795</u> | <u>2,321,360</u> |
| TOTAL - NET | <u>3,932,835</u> | <u>3,819,571</u> |
| <u>OTHER PROPERTY AND INVESTMENTS</u> | | |
| Non-Utility Property, Net | 20,457 | 20,574 |
| Other Investments | <u>22,938</u> | <u>26,668</u> |
| TOTAL | <u>43,395</u> | <u>47,242</u> |
| <u>CURRENT ASSETS</u> | | |
| Cash and Cash Equivalents | 3,631 | 4,561 |
| Other Cash Deposits | 705 | 41,320 |
| Accounts Receivable: | | |
| Customers | 136,105 | 133,717 |
| Affiliated Companies | 119,821 | 137,281 |
| Accrued Unbilled Revenues | 23,669 | 35,020 |
| Miscellaneous | 4,302 | 3,961 |
| Allowance for Uncollectible Accounts | (5,426) | (2,085) |
| Fuel Inventory | 60,580 | 42,806 |
| Materials and Supplies | 87,942 | 71,978 |
| Risk Management Assets | 91,267 | 71,189 |
| Margin Deposits | 3,974 | 11,525 |
| Prepayments and Other | <u>13,317</u> | <u>13,301</u> |
| TOTAL | <u>539,887</u> | <u>564,574</u> |
| <u>DEFERRED DEBITS AND OTHER ASSETS</u> | | |
| Regulatory Assets: | | |
| Transition Regulatory Assets | 27,590 | 30,855 |
| SFAS 109 Regulatory Asset, Net | 324,233 | 325,889 |
| Unamortized Loss on Reacquired Debt | 19,696 | 19,005 |
| Other Regulatory Assets | 41,658 | 41,447 |
| Long-term Risk Management Assets | 83,507 | 70,900 |
| Deferred Property Taxes | 29,640 | 35,343 |
| Other Deferred Charges | <u>22,784</u> | <u>22,185</u> |
| TOTAL | <u>549,108</u> | <u>545,624</u> |
| TOTAL ASSETS | <u>\$5,065,225</u> | <u>\$4,977,011</u> |

See Notes to Financial Statements of Registrant Subsidiaries beginning on page L-1

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
June 30, 2004 and December 31, 2003
(Unaudited)

| | 2004 | 2003 |
|--|--------------------|--------------------|
| | (in thousands) | |
| CAPITALIZATION | | |
| Common Shareholder's Equity: | | |
| Common Stock – No Par Value: | | |
| Authorized – 30,000,000 Shares | | |
| Outstanding – 13,499,500 Shares | \$260,458 | \$260,458 |
| Paid-in Capital | 721,120 | 719,899 |
| Retained Earnings | 444,259 | 408,718 |
| Accumulated Other Comprehensive Income (Loss) | (56,550) | (52,088) |
| Total Common Shareholder's Equity | 1,369,287 | 1,336,987 |
| Cumulative Preferred Stock Not Subject to Mandatory Redemption | 17,784 | 17,784 |
| Total Shareholder's Equity | 1,387,071 | 1,354,771 |
| Liability for Cumulative Preferred Stock Subject to Mandatory Redemption | 5,360 | 5,360 |
| Long-term Debt | 1,128,920 | 1,703,073 |
| TOTAL | 2,521,351 | 3,063,204 |
| CURRENT LIABILITIES | | |
| Long-term Debt Due Within One Year | 651,008 | 161,008 |
| Advances from Affiliates | 151,558 | 82,994 |
| Accounts Payable: | | |
| General | 120,705 | 140,497 |
| Affiliated Companies | 65,734 | 81,812 |
| Customer Deposits | 45,552 | 33,930 |
| Taxes Accrued | 77,933 | 50,259 |
| Interest Accrued | 22,149 | 22,113 |
| Risk Management Liabilities | 83,792 | 51,430 |
| Obligations Under Capital Leases | 7,074 | 9,218 |
| Other | 54,460 | 60,289 |
| TOTAL | 1,279,965 | 693,550 |
| DEFERRED CREDITS AND OTHER LIABILITIES | | |
| Deferred Income Taxes | 823,671 | 803,355 |
| Regulatory Liabilities: | | |
| Asset Removal Costs | 95,206 | 92,497 |
| Deferred Investment Tax Credits | 32,635 | 30,545 |
| Over Recovery of Fuel Cost | 69,312 | 68,704 |
| Other Regulatory Liabilities | 23,493 | 17,326 |
| Long-term Risk Management Liabilities | 67,789 | 54,327 |
| Obligations Under Capital Leases | 13,935 | 16,134 |
| Asset Retirement Obligation | 22,635 | 21,776 |
| Deferred Credits and Other | 115,233 | 115,593 |
| TOTAL | 1,263,909 | 1,220,257 |
| Commitments and Contingencies (Note 5) | | |
| TOTAL CAPITALIZATION AND LIABILITIES | \$5,065,225 | \$4,977,011 |

See Notes to Financial Statements of Registrant Subsidiaries beginning on page L-1